

Public Sector Management: Power-over or Power-with? The Case of Estonia

Lea Roostalu

Abstract— Mary Parker Follet (also recognised as a prophet and the mother of modern management) was one of the pioneers of the stakeholder theory and in her view, only power-with is acceptable. This paper examines relations between the Estonian national government and local governments as well as relations between the Estonian national government and ministries (including their administrative units). As there are many related areas between these public sector organisations, our focus was on introducing modern management instruments like activity-based costing and activity-based budgeting. When solving complex management problems facing society, such as the organisation of relations between the state and local governments or between the state and ministries, the principle of complex systems must be used because these public organisations constitute a complex system. Thus, the general methodological basis of this research was systems approach. Additionally, the case study as a research method for data mining was used.

Index Terms— communication, complex systems, Mary Parker Follet, modern management tools, stakeholder theory

1 INTRODUCTION

MARY Parker Follet (1868-1933) defined management as ‘the art of getting things done through people’ [1]. Follet emphasised the importance of cross-functional relationships between entities and recommended horizontal authority instead of vertical, similar to a decentralised flat structure (Ibid). Follet’s approach, where power-over means pseudo-power and only power-with as real power is acceptable, refers to the involvement of employees in management [2]. Mele points out that Follet was a pioneer of stakeholder theory; although Follet herself did not use such a term, she considered it necessary to maintain management relationships with shareholders, bankers, competitors, suppliers, lower-level managers, employees, and customers (Ibid).

The next part of the article presents the theoretical foundations of the work. The author then analyses management-related communication in the Estonian public sector using two examples. In the last part of the article, the author presents a summary and conclusions.

2 HISTORICAL AND THEORETICAL BACKGROUND OF THE STUDY

2.1 COMMUNICATION

According to the history of the Baltic States, Tampere [3] points out four dominant relations (see table 1).

• Author Lea Roostalu, PhD, is currently working as a Visiting Lecturer at the Estonian Business School, Tallinn, Estonia. E-mail: lea.roostalu@gmail.com

TABLE 1. Typology of dominant relation. Source: Tampere, composed by the author.

Type of society	Relations type
Communist society	Power oriented relations
Early and middle transition	Self-maintenance (egoistic) relations
Late transition	Dependency-oriented relations
Democratic society	Dialogical relations

Tõnnisson claims that the development of traditional democracy in Estonia has been similar to that of other post-communist countries: characterised by rapid institutional development and the slower development of civil society [4]. Several authors underscore weak social dialogue in Estonia resulting from a young democracy [5], [6],[7].

Dialogue means mutual communication. Many authors find that communication is very closely related to culture and that the style of communication depends on the culture [3], [8], [9]. Hall even confirms that culture is communication and communication is culture, which points to the interconnection between these concepts [9].

2.2 Stakeholder theory

In the traditional view of a company, the shareholder view, only the owners or shareholders of the company are crucial. Stakeholder theory argues that there are other parties involved, including employees, customers, suppliers, communities, political groups, and all other stakeholders. Numerous articles and books written on stakeholder theory generally credit Freeman as the ‘father of stakeholder theory.’ In Freeman’s view, stakeholder theory plays an important role not only in corporate social responsibility and other fields of business ethics, but also in strategic management, system theory, and organisation theory [10].

2.3 Complex Systems

According to system theory, every system is characterised by its structure or elements and the functional relations between these elements [11]. If the elements of the system are interdependent, i.e. they mutually influence each other, it is a complex system (Ibid).

It can be concluded that the state and local government, as well as the state and ministries, form a complex system, which in turn implies that solving complex problems involving the governance of society must be based on the principle of complex systems [12], [13], [14].

2.4 Modern Management Tools

In order to better understand the case study, brief introductions to activity-based costing (ABC) and activity-based budgeting (ABB) are presented below.

Setting up activity-based costing requires company mapping [15]:

- 1) what activities must be implemented to make each product or provide a service;
- 2) what are the company's resources (premises, equipment, people, etc.);
- 3) how the use of the company's resources is distributed between activities.

After mapping, bills of costs are processed as follows (Ibid):

- 1) the cost amounts are associated with the resource (in connection with which resource the cost was incurred);
- 2) the cost amounts are transferred from the resources to the activities;
- 3) the cost amounts are transferred from activities to products or services.

These three stages make up activity-based costing. Activity-based budgeting is done analogously, using planned costs and activities instead of actual costs and activities.

Activity-based costing was later explained by Peter F. Drucker [16]. Namely, traditional cost accounting focuses on what it costs to do something, while activity-based costing also records the cost of not doing something. Hence, activity-based costing records the costs that traditional cost accounting does not (Ibid).

3 THE CASE STUDY

In this case study, communication by the Government of the Republic of Estonia with the Tallinn City Government, Estonia's largest local government, and the Centre of Registers and Information Systems (CRI), an authority within the area of government of the Ministry of Justice, was analysed using the example of the implementation of two management in-

struments - ABC and ABB.

3.1 Use of ABC

The Tallinn City Government is a pioneer in the use of ABC in the Estonian public sector and has been since 2006, when the author of the article first began implementing it in the city's financial service. Although ABC is quite resource-intensive, it is necessary in order to determine the cost price of the service, especially if the reasons for the cost price are important (for example, compensation for the provision of the service by the Government of the Republic is requested). In 2012, the city's financial service prepared a report on the cost prices of services provided by the Tallinn Vital Statistics Department. The Tallinn Vital Statistics Department provides 20 public services, with only one - ceremonial marriage registration - where 100% of the cost is paid by the couple using the service, which can be organised in the rooms of the department or any other location in Estonia, to the liking of the couple. According to the Local Government Organisation Act (in force from 1993), the procedures of vital statistics are not the primary tasks of the local government and they must be financed by the state.

The report revealed that the costs of providing services are much higher than the money allocated by the state for this purpose. The Government of the Republic accepted the results of the analysis completed on the basis of ABC and increased the financing from EUR 175,000 to EUR 300,000. At the same time, a better cost monitor for these public services was established by using the possibilities offered by SAP software, commonly used for organisation within the City of Tallinn.

In 2014 we measured the times for these procedures and calculated new unit prices (the so-called time-driven ABC, see for example [17]). Additionally, we suggested raising the prices of these services. According to our findings in 2016, the state raised the prices of some procedures involving vital statistics. Thus, both parties benefited, which means that it is a win-win or power-with case.

3.2 Implementation of ABB

Despite the obvious benefits of ABC, activity-based costing was not implemented in state institutions. The only exception was the CRI, an authority within the area of government of the Ministry of Justice, where the implementation of activity-based costing began in 2018. The division of the institution's salary costs proved to be the most difficult and had yet to be completed by 2019.

In addition, state accounting and budgeting continued to use the outdated cash-based principle until 2017. In the Estonian public sector, only Tallinn, the capital of Estonia, has used accrual-based accounting and budgeting since 2004. Cash-based accounting means that business transactions are recorded when cash is paid or received for the transactions [18]. Accrual-based accounting means that business transactions are recorded when they occur, regardless of when cash is

re-ceived or paid for the transactions (Ibid). In her doctoral thesis, Juta Tikk found that the Estonian state must switch to the principle of accrual (Ibid).

Under these conditions, the decision by the Government of the Republic of Estonia to switch to activity-based budgeting beginning in 2020 had a rather unexpected effect. The National Audit Office expressed concern in 2017 about the planned transition [19]: 'The National Audit Office is sceptical about the need for the state budget to be made activity-based. According to the National Audit Office, the implementation of activity-based costing in ministries may lead to more efficient use of budgetary funds; however, the preparation of an activity-based state budget is not necessarily the most effective way to achieve this goal. As long as there are no clear agreements, specific goals, users of the information to be received, and no meaningful analysis has been carried out, there is a risk that a lot of work will be done, the results of which will end up not being used or needed by anyone.'

The transition to an activity-based state budget was complicated by the lack of instructional materials and delays [20], [20]. Attention has also been drawn to the heavy work and the associated need for additional human resources [19], [20], [21]. Hence, no discussion with stakeholders and a lack of communication.

In the state budget the programs of different fields of activity were viewed as ABB activities, which meant a very generalised view of the state budget [21]. At the same time, it somewhat facilitated the compilation of the budgets of ministries and their authorities in the ABB format (Ibid). A significant contribution to the implementation of ABB was expected from the CRI as a leading state authority in this area, which gave its input [20]. In the end, despite all the difficulties, an activity-based state budget was finally put together.

The Estonian parliament (Riigikogu), which had to conduct a legislative proceeding on the finished state budget, was not satisfied with the presented result and would have liked a more detailed budget [21]. It is known that the need for detail in management information depends on the level of management - the need for detailed information by lower-level or first-level managers is much higher than that of middle- and top-level managers [22]. Even though it appears that the parliament is dealing with higher-level managers, the parliament would prefer the previous budget format, i.e. more detailed and transparent information, in order to make reasoned decisions.

The Auditor General, Janar Holm, also criticized the new state budget format [23]: 'The information contained in annual state budget acts has by now been brought to a level of generalisation where it is not possible to draw any definite conclusions about the financing of areas of state life. It is also clear from the state budget that the Ministry of Justice has a performance area called "legal order", under which in turn there is a program called "legal order"... In other words, with its adopted state budget the Riigikogu does not issue any other binding guidelines upon the entire area of government of the Ministry of Justice, other than to spend this EUR 169.4 million during the year, as you see fit.'

Despite the opposition, the presentation of state budgets in

the ABB format continues. Thus, the power-over approach dominates the implementation of ABB.

4 CONCLUSIONS

According to Mary Parker Follet, who is called the mother of modern management, leadership is the art of influencing people, through which power is provided to a group of people, rather than imposing one's own power [1]. According to Follet, management is both a science and an art, and she compares leaders who create a new situation with their creativity to poets [24].

Our case study showed that there are both power-with and power-over approaches in the Estonian public sector. It follows that stakeholders are not always given sufficient attention and are not included in the dialogue. This can probably be justified by the relatively young age of our democratic society and the slow change in the culture of communication after the Soviet era. The development of values takes time [3], [14]. For example, Estonian president Lennart Meri once said [25]: 'We have been successful in everything except restoring the Estonian value system. In addition to casualties, our moral loss has been the most painful. This is silently lingering in our post-Soviet behaviour, undermining our work ethics, values, honesty... Let us not forget that during and after World War II the Estonian intellectuals, educators and all public organisations, from churches to the Kalev sports society, were destroyed first. The restoration of the Estonian value system is a considerably more difficult task than Estonia catching up with the average GDP level of the European Union.'

This research utilised qualitative methodology. Each research strategy has its advantages and limitations. The advantage of the chosen research strategy is that it allows for a deeper investigation. According to Feagin et al. a case study is an ideal methodology when a holistic, in-depth investigation is needed [26]. The limitation of this strategy is connected with the research area - only the communication within the implementation process of modern management tools was under investigation.

REFERENCES

- [1] P. Graham (ed.). Mary Parker Follett. Prophet of the Management. Washington: Beard Books, 1995.
- [2] D. Mele. "Ethics in Management: Exploring the Contribution of Mary Parker Follett", Working Papers of the IESE Business School, 608, March, 2006.
- [3] K. Tampere. Public Relations in a Transition Society 1989-2002: Using a Stakeholder Approach in Organisational Communication and Relations Analyses. Doctoral Thesis. Jyväskylä: Jyväskylä University Press, 2003.
- [4] K. Tõnnisson. The Applicability of New Public Management Principles in Estonian Local Government. Dissertation of the Degree of Doctor of Philosophy in Public Administration and Social Policy. Tartu: University of Tartu, 2006.
- [5] M. Lauristin. "The Key to Democracy is in the Hands of Civil Society", Postimees, March 4, 2011.

- [6] K. Reinsalu. The implementation of Internet democracy in Estonian local govern-ments. Dissertation of the Degree of Doctor of Philosophy, Tartu: Tartu University Press, 2009.
- [7] R. Eamets, E. Kallaste. Estonian social dialogue in the context of European employ-ment strategy. Tallinn: Praxis, 2003.
- [8] K. Sriramesh, K., J. White. "Societal culture and public relations", in J. E. Grunig (ed.), Excellence in public relations and communication management. Hillsdale: Lawrence Erl-baum Associates, 1992.
- [9] E. T. Hall. The silent language. NY: Anchor Books Editions, 1973.
- [10] A. L. Friedman, S. Miles. "Developing Stakeholder Theory", Journal of Management Studies. 39 (1): 1-21, 2002. doi: 10.1111/1467-6486.00280
- [11] U. Mereste. Systems Thinking: A Systems Approach to the Handling of Economic Phenomena. Tallinn: Valgus, 1997.
- [12] R. Kitt. "Complex Social Systems", Akadeemia, 23, 10 (271), pp. 1787- 1800, 2011.
- [13] A. Almann, H. Schneider. State and Legal Theory Problems in the Newly Independ-ent Republic of Estonia. Tallinn: EBS Print, 2005.
- [14] T. Parsons. "An outline of the social system", in T. Parsons, E. A. Shils, K. D. Naegle, & J. R. Pitts (eds.), Theories of society. New York: Simon & Schuster, 36-72, 1961.
- [15] R. S. Kaplan, R. Cooper. Cost and effect: using integrated cost systems to drive profita-bility and performance. Harward Business School Press, 1998.
- [16] P. F. Drucker. Management Challenges of the 21st Century. New York: Harper Busi-ness, 1999.
- [17] R. S. Kaplan, S. R. Anderson. Time-driven activity-based costing. 2004. Available: <https://hbr.org/2004/11/time-driven-activity-based-costing>
- [18] J. Tikk. The integrated model of financial management for public sector organisa-tions: the case of Estonia. Doctoral Thesis. Tallinn: EBS Print, 2014.
- [19] National Audit Office. Accuracy of the 2016 Annual Accounts of the State and the Legality of Transactions. Report of the National Audit Office to the Riigikogu. Tallinn: National Audit Office, 2017.
- [20] K. Reimo. The possibilities to improve the cost accounting system in the public sector on the example of the Center of Registers and Information Systems (CRI). Master's Thesis. Tallinn: EBS Print, 2019.
- [21] M. Hurt. Transition to an activity-based state budget – linking budgets with strategic goals. Master's Thesis. Tallinn: EBS Print, 2020.
- [22] M. Smith. Performance Measurement & Management, a Strategic Approach to Management Accounting. Sage Publications, 2005.
- [23] National Audit Office. What Happened to the Comprehensive National Budget? National Audit Office blog, 2020. Available: <https://www.riigikontroll.ee/Suhtedavalikkusega/Riigikontrolliblogi/tabid/310/920GetPage/1/920Year/-1/ItemId/1285/amid/920/language/et-EE/Default.aspx>
- [24] J. W. Gibson, W. Chen, E. Henry, J. Humphreys, Y. Lian. "Examining the work of Mary Parker Follett through the lens of critical biography", Journal of Management His-tory, 19(4), pp. 441-458, 2013.
- [25] L. Meri, L. Estonia in the European Union – Will Estonia Pass Finland? Political Testament, composed by Toomas Hiio and Mart Meri. Tartu: Ilmamaa, pp.190-191, 2007.
- [26] J. Feagin, A. Orum, G. Sjoberg. A Case for the Case Study. Chapel Hill: University of North Carolina Press, 1991.